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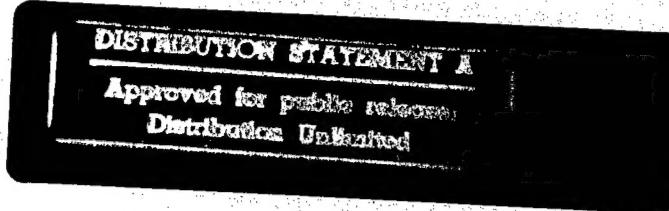
United States General Accounting Office

Report to Congressional Committees

December 1996

DEFENSE MANAGEMENT

Estimating Impact of Changes to Commissary Access Policy



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National Security and
International Affairs Division

B-272685

December 20, 1996

The Honorable C.W. Bill Young
Chairman
The Honorable John P. Murtha
Ranking Minority Member
Subcommittee on National Security
Committee on Appropriations
House of Representatives

Conference Report 104-261 directed us to review proposals to change the Department of Defense (DOD) policy that limits military reservists' access to commissary stores. Commissaries are stores that sell groceries and household supplies to members of the military, retirees, and their dependents. The Defense Commissary Agency (DeCA) manages and operates all service commissaries located worldwide and has received an average of about \$1 billion in federal government support annually over the past 5 years. DOD has proposed allowing reservists unlimited access to commissaries three times in the recent past. DOD officials view this policy change as a low or no cost way to increase military service benefits. Specifically, this report discusses

- the evolution of the policy on military reservists' access to the commissaries and proposals to change that policy,
- the sources of DeCA's funding, and
- the information needed to analyze the impact on appropriated funds of granting military reservists unlimited access to the commissary system.

Background

Military commissaries have existed for many years and provide a nonpay benefit to U.S. military personnel. They sell tax-free food and household items at cost¹ plus a 5-percent surcharge.

DeCA is responsible for operating DOD's worldwide commissary system. It was established in October 1991 to consolidate the four separate commissary systems then operated by the military services. Headquartered at Fort Lee, Virginia, DeCA is organized into 7 regions and employs about 18,000 people. It operates a system of 309 stores—209 in

¹The cost of commissary resale items basically equals the acquisition cost from the suppliers that includes the cost of transportation to the place of receipt by the government within the continental United States, Alaska, and Hawaii. Cost does not include (1) transportation costs for shipment overseas or (2) any costs to operate the commissary system, e.g., labor, utilities, equipment, supplies, real property maintenance, and nonpersonnel general and administrative costs.

the continental United States and 100 overseas. According to DeCA, it is the ninth largest food retailer in the United States and has total annual sales of approximately \$5 billion with U.S. stores generating about 75 percent of the sales.

The eligible commissary customer base totals over 11 million people consisting of about 3.8 million active duty personnel and their family members; about 2.3 million Selected Reservists² and their spouses and children; and almost 4.9 million retired military personnel, which includes their spouses and children. In addition, the customer base includes a number of "Gray Area" retirees,³ some members of the Individual Ready Reserve (IRR),⁴ Medal of Honor recipients, veterans with a 100-percent disability, and civil servants (including diplomats) and their dependents overseas. The active duty community has unlimited access privileges to the commissaries as do the other members of the customer base. Reservists, on the other hand, are (1) authorized 12 visits per year if they have earned a minimum number of points creditable for retirement and (2) access during any period of active duty service. According to DeCA, military retirees account for almost half of its customer patronage. DeCA employees in the continental United States are not authorized to shop in commissaries.

Results in Brief

Commissary access for military reservists before 1986 was limited to a maximum of 14 days and was authorized only during periods of active duty training. Since 1990, reservists have been authorized to earn 12 visits a year to the commissary system in addition to access during any period of active duty service. DOD has submitted three proposals since 1990 to grant reservists unlimited access; however, none have been adopted by Congress because of concerns about the impact such a change might have on the level of appropriated funds and the concerns expressed by civilian grocery providers about the impact on their businesses.

The commissary system is funded primarily from an annual appropriation that has averaged about \$1 billion for fiscal years 1992 through 1996. The other funding source is the 5-percent surcharge that is added to each sale

²Selected Reservists participate in periodic unit training and usually participate in a 2-week active duty training period during each year.

³These are retired reservists who are eligible for retired pay at age 60 but have not yet reached that age.

⁴These reservists do not routinely participate in periodic unit drills and would be activated individually, not as part of a unit, during a time of crisis.

in all commissary stores. This source has provided an average of about \$315 million over the same period. Appropriated funds are used primarily to cover the labor costs of the commissary system and the transportation of U.S. goods to overseas stores.

While DOD has proposed legislation to grant reservists unlimited commissary access, it has not developed estimates of the potential financial impacts of such a policy change. Further, while DOD could obtain the data necessary to develop such estimates, it has not collected or compiled such data. Potentially, any increase in the commissary customer base, such as granting unlimited access to reservists, could increase the sales and overall workload of the commissary system and increase personnel costs. Higher personnel costs could, in turn, increase the level of appropriated funds needed for commissary operations or, at least, cause funding levels to be higher than they would otherwise be.

DOD's fiscal year 1996 and 1997 proposals called for variations of a 1-year field test to identify the effects of increased access for reservists on commissary operations. Field tests would give specific individuals unlimited commissary access for 1 year to develop impact studies. The difficulty with such a test is that it runs the risk of appearing to withdraw a benefit following the test's conclusion.

We believe that a methodologically sound study, using data that could be developed by DOD and DeCA, could provide reliable estimates of the financial impact of granting reservists unlimited commissary access. Key elements of such a study would be to (1) establish baseline data by determining the current level of reservist patronage of the commissary system, (2) correlate commissary locations in the United States with reservist population concentrations to identify locations with the potential to experience increased patronage, and (3) estimate the effects of increased commissary sales/workloads on operating costs (primarily personnel) and the level of appropriated fund support needed.

Evolution of Commissary Access Policy for Reservists

Prior to 1986, Selected Reservists were allowed commissary privileges only during periods of active duty—normally 14 days during each year—but not during weekend drills. In 1986, Selected Reservists were authorized to use the commissary once for each day of active duty training up to a maximum of 14 times. These commissary visits could be used anytime during the 1-year period following the completion date of active duty training.

The current reservist access policy was established in 1990. That year, legislation set access for all members of the Ready Reserve—Selected Reservists and certain members of the IRR—who earn at least 50 retirement points per year the right to a minimum of 12 commissary visits per year. “Gray Area” retirees were also authorized 12 visits each calendar year. Reservists entitled to commissary access are issued a special card that is punched each time a purchase is made at a commissary.

Since 1993, DOD has proposed changing commissary policy three times to allow reservists unlimited access; however, neither DOD nor DeCA have performed any studies to examine or analyze the potential financial impact of these suggested policy changes. None of the proposals were adopted by Congress. The first was submitted for fiscal year 1994 and would have granted reservists, including “Gray Area” retirees, the same unlimited access as active duty personnel. For fiscal year 1996, DOD proposed that “Gray Area” retirees be granted permanent, unlimited commissary access and that the other reservists be provided unlimited access for a 1-year test period. For fiscal year 1997, DOD proposed a 1-year test of unlimited benefits for all reservists (including dependents) at one or more areas in the United States. No plans have been developed to conduct the field tests proposed in fiscal years 1996 and 1997.

Opinions Regarding Reservists’ Unlimited Access to Commissaries

Officials in DOD and DeCA and representatives of industry and military associations hold varying opinions concerning unlimited commissary access for reservists; however, none of the organizations or offices we visited had performed any analysis or conducted any studies to support their particular views.

DOD officials who are responsible for personnel and reserve affairs proposed the initiative and believed that the effects on appropriated funding levels would be minor or nonexistent. They stated that the proposed policy change was the “right thing to do,” and would not likely affect private sector grocers adversely. On the other hand, an official in the DOD Comptroller’s office expressed reservations about the policy change because it could potentially lead to the hiring of additional personnel, thereby increasing the need for appropriated funding. DeCA officials stated that they did not know what the financial impact would be and that the agency would carry out any policy established by DOD and Congress.

Representatives of the Reserve Officers’ Association and the Military Coalition strongly support unlimited commissary access for reservists on

the basis that this change would take away what they perceive as a "second class citizen" stigma for reservists when compared to the active military. These groups also said that the proposed change would not greatly affect private sector supermarkets.

Representatives from the Food Marketing Institute, a food industry association and lobby group, told us that their organization did not support the proposed change, had lobbied strongly against it, and believed the food industry would lose customers and sales if reservists were given unlimited commissary access.

The Congressional Budget Office is conducting an overall review of DOD's resale operations, which include the exchange systems; commissaries; and morale, welfare and recreation activities. An initial report is expected in late 1996 or early 1997. This work is being performed for the House Committees on Budget and Government Reform and Oversight. Broad objectives include examining overall costs, identifying any hidden costs, and determining the worth or value of these activities to their patrons.

Commissary Funding Sources

Commissary funding is obtained from two primary sources—an annual appropriation and a surcharge added to each sale. For fiscal years 1992 to 1996, DeCA's total obligations have averaged about \$1.31 billion annually, about \$1 billion (over 70 percent) in appropriated funds and \$315 million from the surcharge. Because appropriated funds pay for DeCA's personnel costs, there is a valid concern that the need for appropriated funds would increase if the customer base expanded and sales increased. Appendix II presents additional data on commissary funding.

Appropriated Funds

The largest funding source is the annual congressional appropriation. DeCA has received an average of about \$1 billion annually for the 5 years of its existence. Appropriated funds are used primarily to cover two operating expenses: (1) labor costs (civilian employee salaries and personnel contracts) and (2) the transportation of U.S. goods to overseas stores. Appropriated fund support in 1996 totaled almost \$879 million. Of this total, \$595 million went toward labor costs, \$149 million for transportation, and \$135 million for nonpersonnel administrative and other expenses.

Surcharge Collections

Military commissaries are nonprofit organizations that sell merchandise at cost plus a 5-percent surcharge. The surcharge is placed into the revolving Surcharge Collections Fund from which DeCA has obligated, on average, about \$315 million annually. The surcharge is used to pay for (1) facilities, maintenance, and operating supplies, such as paper bags and packaging materials; (2) construction of new commissaries and the renovation of older stores; and (3) some equipment, including data processing items.

Information Needed to Assess the Impact of Policy Change

The actual financial impact, if any, of allowing reservists unlimited access would depend on the extent of additional commissary sales and increased costs generated as a result of programmatic changes DeCA might make to accommodate any increase in sales. These changes, such as additional hiring and store expansion or renovation, could take some time to occur and to have a measurable impact on operations.

DOD proposed in fiscal year 1996 that a nationwide field test be conducted for a 1-year period to evaluate the impact of unlimited access by reservists. In fiscal year 1997, DOD suggested another test at one or more areas in the United States. Both suggestions would require temporarily granting access to commissaries to all reservists or, at least, those in a certain area or areas. The primary concern with testing unlimited accessibility is that withdrawal of the benefit later could have a negative impact on morale and on the perception of the benefits of military service.

We believe DOD and DeCA could develop reliable estimates of the potential impact of this policy change using a study and data analysis approach and that such an approach would be more appropriate than a field test. Key elements of such a study are discussed in the following sections.

Estimating Current Commissary Patronage

The first step in analyzing the impact of opening the commissaries to reservists is to determine how many personnel in each category (e.g., "Gray Area" retirees, Selected Reservists, IRR, active duty, etc.) use the commissaries. This information could be developed by DeCA using recognized survey techniques. While DOD has conducted two surveys involving reservists in the past several years, neither has provided adequate or sufficient information regarding reservist usage.

- A 1992 DOD Reserve Components Survey was done to gain insight into the utilization of and satisfaction with military facilities by reserve officers, enlisted personnel, and their spouses. It did not attempt to estimate the

overall commissary patronage level attributable to reservists or project their usage to the system as a whole. This survey disclosed that 39 percent of reservists reported that they used the commissary system; however, 61 percent said they did not. Sixty eight percent of all reservists surveyed cited distance from the commissary as a factor that limited their usage of the system while the policy restricting reservists' access to commissaries was reported by 25 percent.

- A 1994 Commissary Patron Demographic Survey developed information to describe certain aspects of the typical commissary customer and estimated that reservists represented about 5 percent of commissary patronage. However, according to DeCA officials as well as our analysis, the survey results were not projectable to a systemwide perspective because of flaws in methodology. Specifically, (1) the distribution of commissaries selected for the survey was based on the distribution of the general population—not the population distribution of reservists in the United States—and (2) the survey was conducted during a holiday period that did not represent normal operations.

Commissary Locations, Reservist Populations, and Increased Usage

To identify locations where increased patronage is most likely, DeCA needs to analyze the locations of commissaries in relation to concentrations of reservists and the distances to individual stores. Reservists are located throughout the United States, but, only 209 stores were available within the continental United States in 1996. This means that many reservists are not located close to a store and, therefore, may not be able to use the system on a regular basis. Analyzing demographic data that reflects the location of reservists in relation to available commissary stores and baseline estimates of existing patronage levels in the overall system should identify those geographic areas where increased sales are likely or possible. The distribution of stores is shown in table 1.

Table 1: Commissary Store and State Distribution Summary

Stores per state	Number of states	Total stores
0	6	0
1	13	13
2	11	22
3	2	6
4	8	32
5	4	20
6	2	12
7 or more	8	108
Total	54	213

Note: State and store totals include the District of Columbia as well as three locations outside the continental United States—Puerto Rico, Guam, and the U.S. Virgin Islands.

Stores likely to experience sales increases could be identified by analyzing the demographic data and determining the baseline estimates of existing patronage levels. Potential sales increases could be estimated by several approaches or a combination thereof. For example, (1) reservists could be surveyed by interview at commissary stores determined to be most likely to experience increased patronage, (2) reservists could be surveyed on a nationwide basis to gain insight into any anticipated changes in buying patterns and commissary usage, and (3) commissary store managers could be interviewed for their views and estimates of potential increases (if their estimates were thought to be reliable). The costs and reliability of the results would vary under each approach; therefore, a judgment weighing the tradeoffs would be necessary to determine the specific approach to use.

Estimate of the Effect of Sales Increase on Funding Levels

DOD and DeCA need to develop a detailed understanding of how increased sales would affect store costs, in particular labor costs, and commissary store workloads (sales levels, customer volumes, store hours, etc.). Such an understanding is important to the process of projecting the level of increase that would likely trigger actions affecting appropriated funding levels—additional personnel hours, overtime, and additional hiring.

A major supermarket chain operating in the Washington, D.C., area uses a methodology that involves the comparison of historical store sales and payroll hours to estimate and project the effect of increased sales on personnel and other costs at new stores or at existing stores with changing demographics. For example, comparing the personnel and other costs of a

store with annual sales of \$20 million to one with 10-percent higher sales, that is, one with sales of \$22 million, provides valuable and reliable indications of the additional number of personnel hours needed to support a 10-percent increase at a store with historical sales of \$20 million.

Such a methodology could be applied to the commissary system to develop a range of estimates of the impact on personnel and other costs generated from various percentages of projected increased patronage and sales from reservists, that is, 5, 10, 15, 20, etc. The increased personnel costs, if any, calculated at store and regional levels for each projected sales increase would roughly equal the potential impact range on the level of appropriated fund support resulting from granting reservists unlimited commissary access.

Recommendation

We recommend that the Secretary of Defense ensure that any future legislative proposal to expand commissary access for military reservists be supported by a methodologically sound analysis that estimates the potential impact on appropriated fund support for the commissary system.

Agency Comments

DOD concurred with our recommendation and stated that DeCA and the Office of the Assistant Secretary of Defense (Reserve Affairs) will jointly develop a survey targeted to ascertain the impact expansion of commissary access to military reservists will have on the commissary system. According to DOD, the results of the survey and subsequent analysis will be used to determine the feasibility of future legislative proposals to expand commissary access to military reservists. Where appropriate, we have incorporated DOD's comments and other points of clarification throughout the report.

Appendix I explains our scope and methodology. Appendix II shows charts depicting budget and obligation information for DeCA since it was established. Appendix III contains a reproduction of DOD's comments. The major contributors to this report are listed in appendix IV.

We are sending copies of this report to interested congressional committees and Members of Congress; the Secretary of Defense; the Director, DeCA; and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please contact me at (202) 512-8412 if you or your staff have any questions concerning this report.

A handwritten signature in black ink that reads "David R. Warren". The signature is fluid and cursive, with a horizontal line extending from the end of the "n" in "Warren".

David R. Warren, Director
Defense Management Issues

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Abbreviations

DeCA	Defense Commissary Agency
DOD	Department of Defense
IRR	Individual Ready Reserve

Scope and Methodology

Our study of the Department of Defense (DOD) policy regarding access to the commissary system by military reservists and proposed changes to allow unlimited access was conducted primarily at offices in the Office of the Secretary of Defense in the Pentagon and at Defense Commissary Agency (DeCA) headquarters at Fort Lee, Virginia.

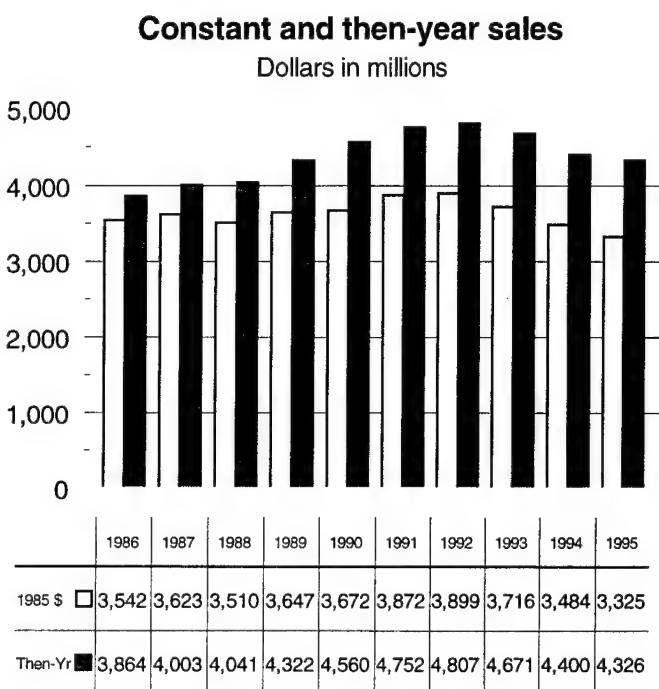
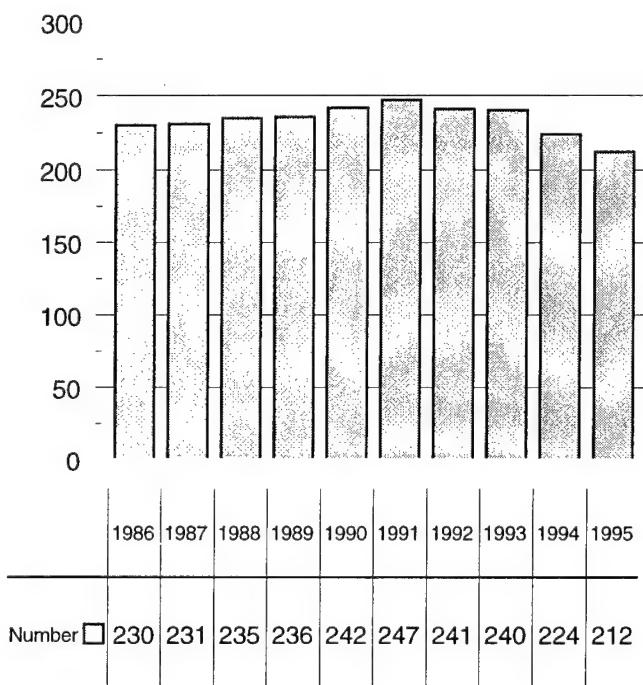
We interviewed DeCA officials and reviewed and analyzed financial data for headquarters, regions, and commissaries within those regions to obtain information regarding DeCA's budget and funding sources and the application of funds from each source. We did not verify the accuracy of the data provided by these officials. At Fort Lee, Virginia, we toured the commissary store and interviewed the manager to obtain information on commissary prices, sales, and operations.

We interviewed DOD officials in the offices of the Assistant Secretary of Defense (Reserve Affairs), the Assistant Secretary of Defense (Force Management and Personnel), and the DOD Comptroller's Office to gain information on the rationale for granting reservists unlimited commissary access and their views on the issue. We were also briefed by representatives of the Reserve Officers' Association, the Military Coalition, and the Food Marketing Institute. In addition, we contacted a local grocery chain to discuss its methods to evaluate and project sales increases on their operations and costs.

We conducted our review from April 1996 to December 1996 in accordance with generally accepted government auditing standards.

DeCA Sales, Budget, and Obligation Information

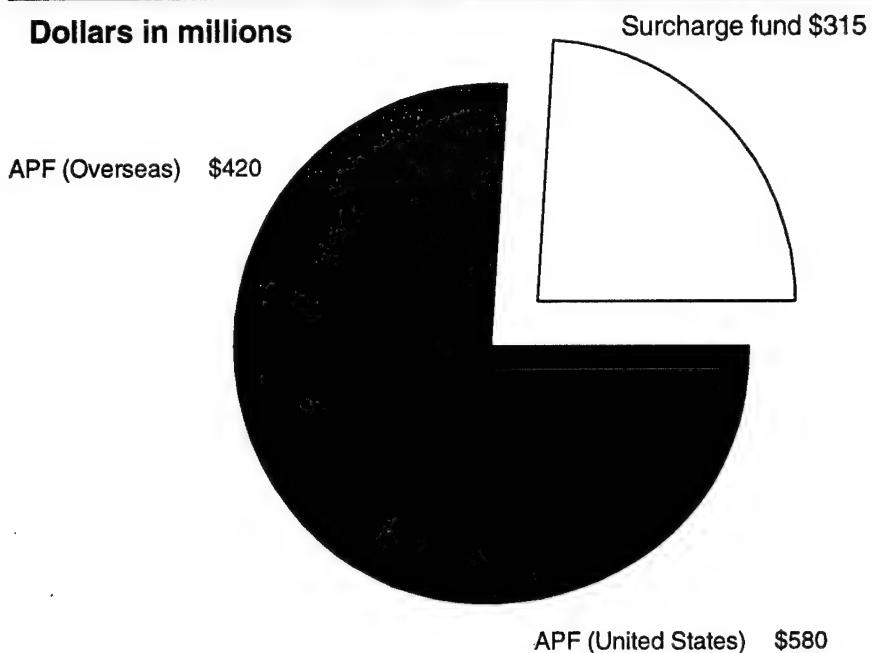
Figure II.1: Number of Continental U. S. Stores and Sales Data, Fiscal Years 1986-95



Source: DeCA.

Appendix II
DeCA Sales, Budget, and Obligation
Information

Figure II.2: Average Annual Appropriated Fund and Surcharge Obligations, Fiscal Years 1992-96

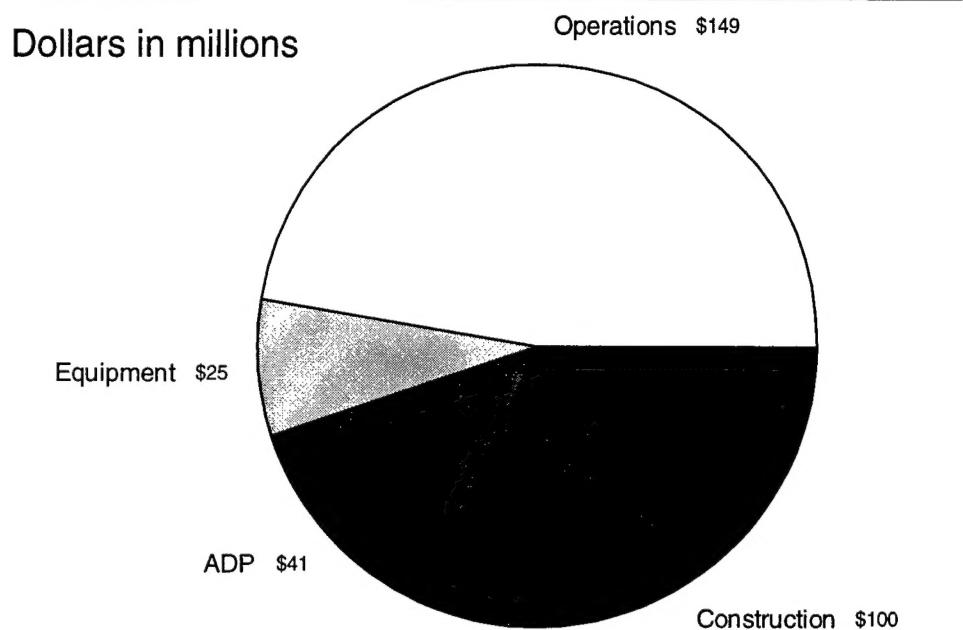


Note: APF—appropriated funds.

Source: DeCA.

Appendix II
DeCA Sales, Budget, and Obligation
Information

**Figure II.3: Average Annual Surcharge
Obligations, Fiscal Years 1992-96**

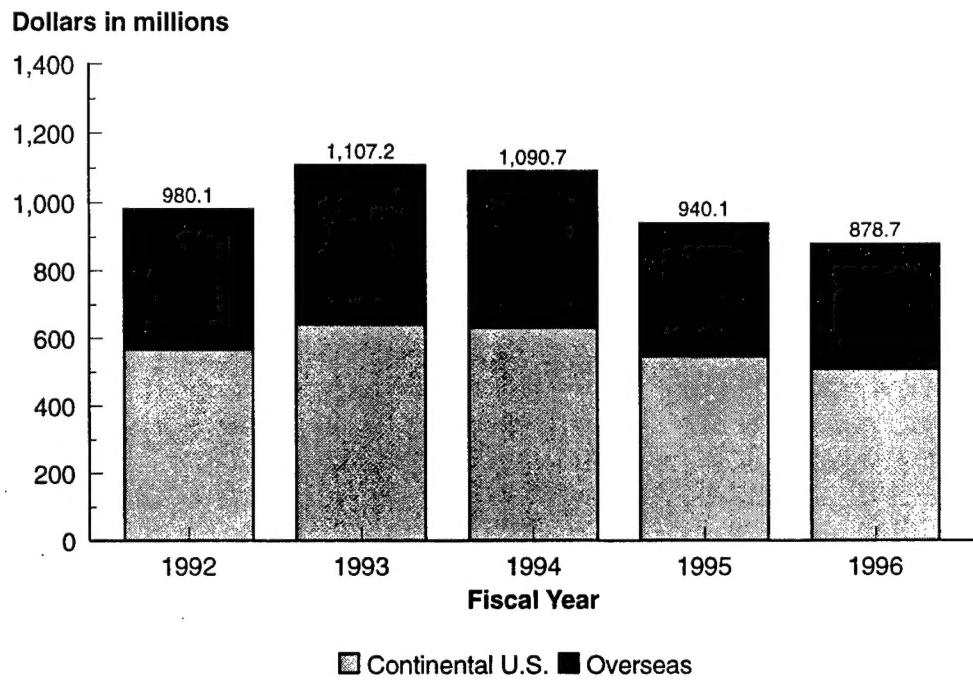


Note: ADP—automated data processing.

Source: DeCA.

Appendix II
DeCA Sales, Budget, and Obligation
Information

**Figure II.4: DeCA Appropriations,
Fiscal Years 1992-96**



Source: DeCA.

Comments From the Department of Defense



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FORCE MANAGEMENT
POLICY

5

Mr. David R. Warren
Director, Defense Management Issues
National Security and International Affairs Division
US General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to General Accounting Office draft report entitled "DEFENSE MANAGEMENT: Estimating Impact of Changes to Commissary Access Policy," dated November 20, 1996 (GAO Code 709194/OSD Case 1256).

The report recommended the "Secretary of Defense ensure that any future legislative proposal to expand commissary access for military reservists be supported by a methodologically sound analysis that estimates the potential impact on appropriated fund support for the commissary system." The Department of Defense concurs with the recommendation.

The Defense Commissary Agency and the Office of the Assistant Secretary of Defense (Reserve Affairs) will jointly develop a survey targeted to ascertain the impact expansion of commissary access to military reservists will have on the commissary system. The results of this survey and subsequent analysis will be used to determine the feasibility of future legislative proposals to expand commissary access to military reservists. The savings associated with eliminating the administrative costs for issuing and maintaining the current commissary access card for reservists will also be ascertained. Additionally, the survey will ascertain the impact of reduced active duty force structure; the changing reliance upon the reserve forces for deployment requirements; and the value extending commissary privileges will have on retention and readiness of the reserve forces.

The Department appreciates the opportunity to comment on the draft report. Technical edits are provided in the enclosure.

Sincerely,

Francis M. Rush, Jr.
Principal Deputy Assistant Secretary

Enclosure:
As stated



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